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Market Intelligence

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Earnings Call

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Presentation

Operator

Hello, everybody, and welcome to the Q2 2025 Revvity Earnings Conference Call. My name is Elliot, and I'll be your coordinator for today.

[Operator Instructions] I'd now like to hand over to Steve Willoughby, Senior Vice President of Investor Relations. Please go ahead.

Stephen Barr Willoughby

Senior VP of Investor Relations & Head of ESG

Thank you, operator. Good morning, everyone, and welcome to Revvity's Second Quarter 2025 Earnings Conference Call.

On the call with me today are Prahlad Singh, our President and Chief Executive Officer; and Max Krakowiak, our Senior Vice President and Chief Financial Officer.

I'd like to remind you of the safe harbor statements outlined in the press release issued earlier this morning and those in our SEC filings. Statements or comments made on this call may be forward-looking statements, which may include, but may not be limited to, financial projections or other statements of the company's plans, objectives, expectations or intentions. The company's actual results may differ significantly from those projected or suggested due to a variety of factors, which are discussed in detail in our SEC filings. Any forward-looking statements made today represent our views as of today. We disclaim any obligation to update these forward-looking statements in the future, even if our estimates change. So you should not rely on any of today's statements as representing our views as of any date after today.

During the call, we will be referring to certain non-GAAP financial measures. A reconciliation of the measures we plan to use during this call to the most directly comparable GAAP measures is available as an attachment to our earnings press release.

I'll now turn it over to our President and Chief Executive Officer, Prahlad Singh. Prahlad?

Prahlad R. Singh

CEO, President & Director

Thanks, Steve, and good morning, everyone. The dynamic macro and market environment we experienced during the first quarter of the year continued through the second quarter and at this point, does not yet appear to be settling down as we enter the second half of the year. Despite these persistent and, in some cases, new challenges, Revvity continues to perform at a high level. This strong performance exemplifies our unique businesses, which provided us with the proper balance to continue to generate results that were in line to above our expectations.

I'm very proud and extremely impressed with our employees' ability to stay focused on our key objectives, quickly adapt to evolving obstacles and capitalize on new opportunities as they arise. This strong performance and flexibility was in display in many ways during the second quarter, such as our ability to maneuver rapidly in the varying tariff environment, our strong levels of innovation and our ability to swiftly manage and adjust our cost structure to ensure we continue to deliver for our shareholders. All these efforts culminated in our robust cash flow generation, which we have actively redeployed to return cash to our shareholders.

Despite the evolving market and regulatory environment, we were again able to achieve our objectives and deliver another solid quarter with 3% organic growth overall, which was right in line with our expectations. With a modestly stronger operating margin performance when excluding the impact from FX, we reported adjusted EPS in the quarter of \$1.18, which was solidly above our expectations and guidance. Our performance in the quarter was led by our Life Sciences business, which grew 4% organically overall, led by approximately 30% growth in our Signals software franchise.

In addition to the strong performance in the quarter, our Software business also set a new record for orders in a single quarter, which bodes well for its future performance. This strength in Software helped drive mid-single-digit growth year-over-year with our pharma and biotech customers, an improvement from the low single-digit growth we experienced in the first quarter. This improved rate of growth from pharma and biotech was partially offset by continued weakness from academic and government customers, where our revenue again declined in the low single digits year-over-year globally, similar to the performance we saw in the first quarter. Sales into academic and government customers in the Americas region also declined in the low single digits, similar to the first quarter performance.

Our Diagnostics segment grew 2% organically, in line with our expectations as our immunodiagnostics franchise faced more difficult multiyear comparisons, limiting its growth to the low single digits this past quarter. Around midway through the quarter, we began to face a new challenge in this business in China relating to an expansion and acceleration of a hospital lab reimbursement change, known as the diagnosis-related groups, or DRG. This expanded policy change is having an impact on the size of diagnostic panels ordered by physicians in the country, initially resulting in a reduction in overall volumes for some of our multiplex products. This is likely to drive an eventual increase in volume for more expensive single-plex tests, which we also offer.

For the remainder of the year, we are now expecting a fairly meaningful pullback in our immunodiagnostics business in China, which is incorporated into our updated outlook for the total company for the year. While this policy change is a new headwind for us to contend with over at least the remainder of the year, with a strong performance in many other areas of our business, along with tight management of our expenses, it is only having a very modest impact on our outlook for the year. We now expect our full year organic growth to be in the 2% to 4% range, down 1% from our prior outlook, while our adjusted EPS for the year is now expected to be in the range of \$4.85 to \$4.95, which is also down a modest 1% compared to our previous expectation.

Overall, the second quarter ended up playing out largely as we had expected, both from a top and bottom line perspective, despite the new unforeseen headwinds in our Diagnostics business in China, which is a testament to our resilience and the differentiation our unique businesses provide. In addition to the solid P&L results, we also continue to perform well with our cash flow conversion and generation. In the quarter, we generated another \$115 million of free cash flow despite strategically moving and increasing inventories in some areas ahead of the potential tariff changes.

This resulted in free cash flow conversion to adjusted net income to continue to be in line with our longer-term aspirations and at 90% year-to-date. While we continue to actively evaluate redeploying this cash into potential M&A targets that we believe could make a strong strategic addition to the company, our disciplined multi-criteria process has not yet identified targets compelling enough from a financial profile and expected return perspective to move further forward with.

Given the strong and differentiated financial profile Revvity now has and our robust internal innovation pipelines, we will continue to remain active and aggressive in evaluating potential acquisition targets of all sizes, but we'll also remain disciplined as we believe Revvity has been built into something that is truly special on its own. With our longer-term expectations for the company remaining unchanged despite the challenges our industry has faced over the last few years, we continue to be opportunistic and use this period to become increasingly aggressive with our share repurchase activities.

After repurchasing \$150 million worth of stock in the first quarter, we repurchased another nearly \$300 million worth of stock in the second quarter alone. This brings our repurchases of stock through the first half of the year to just shy of \$450 million. This equates to a reduction of over 4 million shares or nearly 4% of our total shares outstanding. Since the end of the second quarter last year, we have repurchased over \$750 million of our stock, which has reduced our total average diluted shares outstanding by 7 million or an approximate 6% decline in our share count overall. Our solid operational performance is driven by our strong levels of innovation, which allow us to consistently introduce important new offering to our customers.

One example of this from the second quarter was the launch of our new IDS i20 analytical random access platform introduced through our EUROIMMUN business, which is part of our immunodiagnostics

portfolio. This CE mark and FDA listed device represents a breakthrough in specialty testing automation, allowing laboratories to consolidate up to 20 different analytes across 6 diagnostic specialties on a single instrument. The IDS i20 platform processes up to 140 tests per hour and enables labs to transition from manual or semi-automated methods to fully automated chemiluminescence immunoassay processing, while offering continuous loading capabilities and integrated reagent cooling, allowing for nonstop operation. We believe this solution addresses critical laboratory needs for efficiency, versatility and reliability in specialty testing areas, including endocrinology, allergy, Alzheimer's disease, autoimmune and infectious diseases as well as therapeutic drug monitoring.

The launch includes a strong initial lineup of assays with many more expected to be added over the remainder of the year and into 2026. Since launching in May, initial customer feedback from installations in key labs across Europe is quite promising, and we continue to believe the i20 will be a significant part of our chemiluminescence growth strategy in the coming years. Our ongoing innovation and strong execution are not only robust, but also rooted in sustainability and integrity. Our continuous improvement in areas impacting our sustainability, governance and social priorities was recognized recently by MSCI, who increased their overall ESG rating for Revvity to AAA, which is the highest level. I see this progress in action every day at the company, but I'm proud that our achievements are being recognized externally as well.

As we look ahead to the second half of the year, a number of our businesses are positioned to continue to perform at a very high level, such as our Signals software franchise and our reproductive health business, which is starting to benefit from the ramp-up in July of sequencing volumes as part of the contract we were recently awarded from Genomics England for its generation study. It's also encouraging to see our Life Science reagents and instruments businesses demonstrating continued stability so far this year with our full year outlook for them remaining unchanged. We expect these promising signs to be partially offset by the new and unexpected challenges in our China immunodiagnostics business, as previously mentioned.

Overall, the current macroeconomic and regulatory environment continues to present challenges, but it's in precisely this kind of environment that we've consistently risen to the occasion and thrived, just as we have throughout the past 5 years of Revvity's remarkable transformation. Our continued focus on executing at a high level on those items which are in our control, while capitalizing on opportunities and managing through hurdles as they arise has allowed Revvity to consistently outperform most of our peers over the last 2.5 years, which is something I expect will continue in the years to come. This is all because of the dedication of our 11,000 colleagues around the world who are embracing the impossible to help improve lives everywhere.

With that, I will now turn the call over to Max.

Maxwell Krakowiak

Senior VP & CFO

Thanks, Prahlad, and good morning, everyone.

As Prahlad mentioned, we continue to show good performance in the second quarter despite facing new and existing challenges, which were unanticipated at the start of the year. From funding levels for academic research to country and industry-specific tariffs and now new challenges from regulations, which are limiting diagnostics volumes in China, our industry has faced many obstacles so far this year. Considering these developments, we have shown a strong ability to navigate them and respond quickly, allowing us to still deliver strong performance overall as was evident in our second quarter results.

I'll start on tariffs. As we first mentioned last quarter, we have quickly taken significant operational actions to largely mitigate their impact, which were executed upon as expected and on time during the second quarter. While some tariffs were rolled back during the quarter, particularly with China, this relief did not meaningfully change their overall impact on us given our mitigation efforts are operational in nature and still moving forward as previously planned. While the tariff situation continues to evolve, as evidenced by yesterday's announced preliminary pack between the U.S. and Europe, our updated outlook assumes the tariffs that are in place as of last Friday, the 25th of July.

As it pertains to our updated outlook for the year, we are expecting continued stability from our pharma and biotech customers and the headwinds our academic and government customers are facing to continue. Our assumptions for growth within our Life Sciences segment remain unchanged within our updated outlook and guidance. However, as Prahlad mentioned, since the start of May, we have begun experiencing increasingly larger volume-related headwinds in our immunodiagnostics business in China, which we now expect will continue over at least the remainder of the year. While we were able to mitigate and offset most of the impact from the DRG changes during the second quarter itself, as we move into the second half of the year, we are lowering our expectations for this business in China to account for the trends we are seeing in July, which we anticipate will continue over the coming months.

As a result, our immunodiagnostics business in China, which represents approximately 6% of total company revenue, is expected to now be down high teens for the full year. Our updated outlook for this business in China is driving the entirety of the change in our overall outlook for the company. Incorporating the impact of these new pressures, we are now looking for organic growth this year for the total company to be in the range of 2% to 4%, which is slightly below our previous expectations. While this is impacting most diagnostic players in the market, including domestic competitors, we have already begun to take additional near- and longer-term cost actions to help offset the impact to our bottom line. Those actions that are quicker to implement, including rightsizing the business in China, along with other immediate discretionary expense reductions are now factored into our updated outlook.

In addition to these near-term actions, we are also taking additional structural actions that given their scope will take into next year to be fully implemented. While we are actively managing and offsetting a significant portion of the bottom line impact, we do expect the drop in volume and some margin rate headwinds from recent changes in FX to have a modest impact on our overall operating margins and adjusted EPS for the year. I will provide additional details on our updated outlook in a moment, but the net impact of this is we now expect our 2025 adjusted earnings per share to be in a range of \$4.85 to \$4.95, down 1% from our prior outlook.

Now turning to the specifics of our second quarter performance. Overall, the company generated revenue of \$720 million in the quarter, resulting in 3% organic growth. FX was a 1% tailwind to growth, and we again had no incremental contribution from acquisitions. While FX became more favorable to our top line as the quarter progressed, given the severity of the changes in rates and their geographical dispersion, the change in the top line impact from FX is having a minimal corresponding impact to our adjusted net income, both in the second quarter and in our current outlook for the remainder of the year.

As I mentioned, this is generating some pressure on our gross and operating margin rate for the year, given the associated increase in revenue dollars is without a corresponding increase in gross and operating profit dollars. As it relates to our P&L, we generated 26.6% adjusted operating margins in the quarter, which were down 210 basis points year-over-year and in line with our expectations. Our underlying operating margin performance was better than we had anticipated as FX movements were a headwind to our margin rate and the impact from tariffs were in line with our expectations despite the changes that occurred midway through the quarter.

Looking below the line, our adjusted net interest and other expenses were \$20 million in the quarter, which was modestly impacted by the increased share repurchase activity year-to-date, resulting in lower interest earnings on our cash balances. Our adjusted tax rate was 19.1% in the quarter, which was slightly lower than expected due to the favorable impact of recent tax planning initiatives. We also continue to remain active with our share repurchase program and averaged 117.5 million diluted shares in the quarter, which was down over 2.5 million shares sequentially. This all resulted in our adjusted EPS in the second quarter being \$1.18, which was \$0.04 above our expectations.

Moving beyond the P&L, we generated free cash flow of \$115 million in the quarter, resulting in 83% conversion of our adjusted net income. On a year-to-date basis, our \$234 million of free cash flow equates to a solid 90% conversion of our adjusted net income. As we move into the back half of the year, I expect our absolute cash flow and its conversion to continue to remain strong and solidly above our 85% long-term expectations.

Regarding capital deployment, we have stayed active so far this year with our buyback program as we repurchased \$293 million worth of shares in the second quarter. As it relates to our balance sheet, we finished the quarter with a net debt to adjusted EBITDA leverage ratio of 2.6x with 100% of our debt being fixed rate with a weighted average interest rate of 2.6% and a weighted average maturity out another 7 years. As we evaluate capital deployment, we will continue to remain flexible in order to capitalize on the highest return opportunities, while maintaining our investment-grade credit rating.

I will now provide some commentary on the second quarter business trends, which is also highlighted in the quarterly slide presentation on our Investor Relations website. The 3% growth in organic revenue in the quarter was comprised of 4% growth in our Life Sciences segment and 2% growth in Diagnostics. Geographically, we grew in the mid-single digits in both the Americas and Europe, while Asia declined in the mid-single digits with China also declining mid-single digits. From a segment perspective, our Life Sciences business generated revenue of \$366 million in the quarter. This was up 5% on a reported basis and 4% on an organic basis. From a customer perspective, sales to pharma and biotech customers grew in the mid-single digits, whereas sales in academic and government customers declined in the low single digits in the quarter.

Our Life Sciences Solutions business declined in the low single digits in the quarter overall, with declines in instrumentation, partially offset by continued growth in reagents. Our Signal software business was up a little over 30% year-over-year organically in the quarter, and as Prahlad mentioned, had its largest quarter of orders in its history. The business also continued to perform exceptionally well from an ARR, APV and net retention rate perspective as well, with all metrics solidly above levels from last year. In our Diagnostics segment, we generated \$354 million of revenue in the quarter, which was up 3% on a reported basis and 2% on an organic basis.

From a business perspective, our immunodiagnostics business grew low single digits organically during the quarter, which was in line with our expectations despite China declining more than we expected and being down in the low teens. Excluding China, the other 80% of our immunodiagnostics business continued to perform very well, especially in the Americas, which grew organically in the mid-teens, while immunodiagnostics in Europe grew in the solid mid-single digits. Our reproductive health business grew low single digits organically in the quarter.

Newborn screening continued to perform well and grew high single digits globally, which was driven by outstanding operational and commercial execution, given continued headwinds from global growth rates, which have again intensified so far this year, particularly in China. As it pertains to China specifically, overall, we incurred a mid-single-digit organic decline in the second quarter, driven by our Diagnostics business being down in the low double digits as it began to face the impact of the DRG-related declines in volume. This was partially offset by strong mid-single-digit growth in our Life Sciences business in China as we saw improvement in year-over-year growth in both reagents and instruments in the region.

Now moving on to guidance. As mentioned, we are updating our organic growth outlook for the back half of the year to account for the new volume-related pressures we are seeing from DRG changes in China and our Diagnostics business. This change is leading to our total company organic growth outlook for the year to now be in the range of 2% to 4%. We continue to expect our Life Sciences segment to grow in the low single digits, unchanged from our prior outlook, but we now expect Diagnostics to also grow in the low single digits, down from our previous mid-single-digit outlook.

With the continued weakening of the dollar so far this year, we now anticipate the impact from FX to be an approximately 1% tailwind to revenue for the full year compared to our previous assumption of it being a 50 basis point headwind. As mentioned, given the makeup of the changes in FX, we do not expect it to have a material flow-through in our P&L for the year. We expect these changes to our outlook for organic growth and FX to result in our total revenue this year to now be in the range of \$2.84 billion to \$2.88 billion overall.

Moving down the P&L. We now expect our adjusted operating margins to be in a range of 27.1% to 27.3%, which is down from our prior outlook due to the changes in FX and the impact from lower volume of high-margin diagnostics tests, which is being partially offset by the additional cost actions we are currently implementing. We expect the more significant structural cost actions we are beginning to take

to be fully implemented in 2026. We anticipate the impact from these actions will allow us to offset the incremental margin pressures we are now facing this year and to be able to enter next year with a 28% operating margin baseline, which we would then expect to further expand upon commensurate with the level of organic growth we experienced.

Consequently, because of these initiatives, we anticipate our overall operating margin expansion next year to be greater than what we would typically be expected in a given year, enabling us to recoup the impact from the new headwinds we are facing this year. Below the operating line, we now expect our net interest and other expense to be around \$80 million this year, driven by some incremental pressure from lower interest income. We are continuing to make good progress with our tax planning initiatives and now expect our adjusted tax rate this year to be approximately 18%, down from our prior 19% outlook and the 20% we had assumed at the beginning of the year. With our increased share buyback activity, we now also expect an average diluted share count of approximately 117 million for the year overall. This all results in our adjusted earnings per share for the year expected to be in a range of \$4.85 to \$4.95.

Regarding our outlook for the third quarter, we anticipate organic growth to be in the 0% to 2% range, resulting in total expected revenue in the range of \$690 million to \$705 million. We anticipate our adjusted operating margins to be approximately 26% in the third quarter, and we are assuming a tax rate of approximately 18%, with roughly 116 million average diluted shares outstanding for the quarter. We expect this to result in our adjusted EPS in the third quarter to be in the range of \$1.12 to \$1.14.

Overall, we performed well in the second quarter despite facing new and existing challenges, which we are actively working to counter and offset. Our levels of innovation and investment remain strong, which when combined with the additional cost actions we are taking positions us well to execute at a high level through all market environments, while always still delivering for our customers. With that, operator, we would now like to open up the call for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Vijay Kumar with Evercore ISI.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Maybe first one on the guidance, the change on organic. I know you mentioned this was China, the change in DRG. Was that anything else beyond DRG? Anything on VBP? Because when we're doing the math, I think the exit rate is low singles. Should that be the ballpark here for fiscal '26 given some of these headwinds should persist in '26?

Prahlad R. Singh

CEO, President & Director

Vijay, essentially, a majority of what we are seeing is from DRG. In late April, this policy went into effect, which is called the debundled policy. That is specifically impacting the multiplex tests that we have. In the mid- to longer term, the way to think of it is with autoimmune testing, you look for a needle in a haystack. And essentially with the debundling policy, it lowers the test volumes, which essentially means that they have to look for a needle in half the haystack is one way to think of it.

But really, what it does is in the longer run, we think that this potentially offsets because there'll be more single plex tests that will be needed, which also tend to be more expensive on a per asset basis. So from a company perspective, we are working across with thought leaders, KOLs, doctors and hospitals to see if this could potentially reverse some of the changes because of the impact that it has on patient care. But majority of what you see is from DRG.

Vijay Muniyappa Kumar

Evercore ISI Institutional Equities, Research Division

Understood. And then Max, maybe one for you on the margin change. I think you made some comments about '26 margins being above your typical range, right? Can you just remind us what is your typical range? What volumes do they assume? And now when you think about margins for next year being slightly better on cost actions, is that assuming -- what kind of volumes or revenue growth is that assuming?

Maxwell Krakowiak

Senior VP & CFO

Yes, Vijay. So look, I think you kind of mentioned it yourself, right? I think the intent of the comments was to establish that next year, our baseline will be a 28% operating margin. And then from there, depending upon the level of organic growth, we would have the corresponding margin expansion. As a reminder, our LRP, right, assumes a couple of hundred basis points above market growth, which if you call it mid-single digits, it would be a high single-digit organic growth. And with that growth level, we would expect to expand margin 75 basis points in a normal year. If growth is mid-single digits for us next year, that would probably be closer to 50 basis points margin expansion. And so I think that's been the framework we provided. And I think, again, the intention on this call was just to establish that our baseline OEM for next year will be starting at 28% with these structural cost actions.

Operator

We now turn to Doug Schenkel with Wolfe Research.

Douglas Anthony Schenkel

Wolfe Research, LLC

I just want to ask questions on 2 topics. First, is just guidance assumptions for this year from a revenue pacing standpoint and then a follow-up on China. So on guidance, it looks like you're assuming similar revenue pacing to last year. I just want to make sure that's right. And if so, what is embedded into guidance for things like a year-end budget flush and NIH funding? So that's on guidance.

And then on China, the incremental reimbursement pricing headwind is just getting going. When would you expect this to annualize? Do you have visibility on whether or not this is the last cut? And when would a move to Signal -- sorry, single marker panels start to help your business?

Maxwell Krakowiak

Senior VP & CFO

Yes, Doug, I'll take the first question there on the revenue pacing. I think as you look at the sort of Q3 versus Q4 dynamic in the back half here, I would say it is sort of normal seasonality. It took a high single-digit ramp in both our Life Sciences Solutions and our Diagnostics business. The other 2, I would say, sort of unique differences for us as a company is, one, you do have the ramp-up of gel in the fourth quarter. And then two, although the Signals organic growth will be lower in the fourth quarter, it is always a larger quarter from a volume perspective for there. So that is adding additional ramp between Q3 and Q4.

Prahlad R. Singh

CEO, President & Director

And Doug, to your second question, as I said, we started seeing the impact of this in late April, early May. So we would like to -- likely to see an impact continue until we anniversary this or as you said, potentially the regulation is either rolled back or altered. Just to put it in perspective, IDX in China is now less than 6% of our total revenue and will likely be less than 5% in '26.

Operator

Our next question comes from Dan Brennan with TD Cowen.

Daniel Gregory Brennan

TD Cowen, Research Division

Great. Maybe just on the Life Sciences side, since that did well in the quarter, you kind of beat your expectation, made some positive comments. I'm wondering, could you give any color underneath the thought about reagents and instruments. I know you said grew and were weak. And then was contemplation that raised the guidance there at all? Just kind of wondering if you could speak to kind of overall the trends that you were seeing, particularly on biopharma.

Prahlad R. Singh

CEO, President & Director

Maybe I'll start with the trends that we are seeing and then Max, you can jump in. I think, Dan, if you just think of it, as we've said, pharma/biotech continues to show stability as mid-single-digit growth in the second quarter. And just to put it in perspective, our Life Sciences reagents business has now grown 5 consecutive quarters. So I think that bodes well. As we look forward, obviously, there continues to be impact on the capital equipment spend as we are seeing. But overall, we continue to be optimistic with 5 consecutive quarters of reagents growth that we have seen in the business.

Daniel Gregory Brennan

TD Cowen, Research Division

Okay. Terrific. So maybe just on the reproductive health business. It sounds like the newborn screening business continues to do really well. Just kind of remind us how you're thinking about that business in the back half of the year. And Max, I know you alluded to the gel impact. Just kind of -- can you frame exactly what we're thinking about by the fourth quarter? And kind of what's the visibility on that?

Maxwell Krakowiak

Senior VP & CFO

Yes. I think when you look at the reproductive health business, in the first half here, it grew low single digits. Again, we mentioned on the call, the newborn screening business continues to perform incredibly well despite continued global birth rate pressures. I would say, as you look at the back half, the third quarter will probably be similar levels of which you saw in the first half as gel is still ramping up. And then in the fourth quarter, we do expect reproductive health to grow in the high single digits, which is really a combination of one, the ramp-up of gel. And then two, there's a little bit of a comp dynamic in the fourth quarter, but that essentially sums up our expectations for the second half.

In terms of visibility on gel, I'd say the launch is going incredibly well so far. Again, we're almost now -- almost a full month into it, and we've got pretty good levels of visibility into the expected volume ramps here for the rest of the year.

Operator

We now turn to Puneet Souda with Leerink Partners.

Puneet Souda

Leerink Partners LLC, Research Division

Prahlad and Max, just briefly on the Software side. Can you talk a little bit about how much of that was installed in new contracts versus continuing licensing and service? And what's the expectation of growth for Software in the second half? And remarkably strong here, but wondering how sustainable that is? And why is that not a tailwind to gross margins?

Prahlad R. Singh

CEO, President & Director

Yes. Puneet, look, as I mentioned -- as we mentioned in our prepared remarks, our Signals Software business continues to do extremely well. We had record quarters for the orders. This is, I think, the longest -- the highest we had in the history with -- also from a growth perspective, 32% organic growth. But I think it's not really as much as what we look at organic growth, but more around net retention, our ARR and APV. We've had a 21% uplift with 115% net retention in the business. Our APV has grown by 13% that is driven by a strong SaaS bookings. We had nearly more than 1/3 of our business is now SaaS. So overall, when we look at the business, the benefits of the investments that we have made in the business and as the new product launches come up, that gives us the confidence that this business is continuing to grow very well.

Puneet Souda

Leerink Partners LLC, Research Division

Got it. And then...

Maxwell Krakowiak

Senior VP & CFO

Puneet, can you repeat the second question for us?

Puneet Souda

Leerink Partners LLC, Research Division

Yes. Margin side, why shouldn't we expect improved margins from the Software side, just given the -- generally, those are better margins on the gross margin side?

Maxwell Krakowiak

Senior VP & CFO

Yes. I think, look, we're factoring in, obviously, the mix of our businesses as we look at our operating margin for the year. Really what you're having an impact of on the operating margin side is the magnitude of the volume drop on what were extremely high-margin diagnostic assays for our China immunodiagnosics business.

Puneet Souda

Leerink Partners LLC, Research Division

Okay. And then Prahlad, a high level, an important question for you. I didn't hear as much on the portfolio resiliency as you've talked about in prior calls since the transformation. I mean Diagnostics was supposed to be the support or the ballast in these challenging time in tools, but it's turning out to be no different than what peers are seeing in terms of the DRG impact in China. Can you talk a little bit about where the portfolio is? And how do you see the position of -- your position in China, IDx overall and your presence in China? And how that fits into the portfolio mix that you want to have in terms of the resiliency?

Prahlad R. Singh

CEO, President & Director

Puneet, I think we are very confident and very optimistic with our total portfolio. I mean we talked about the strength that we have seen in our Life Sciences business with 5 consecutive growth -- 5 consecutive quarters of growth on reagent from pharma/biotech in a tough market environment. We have a Signal Software business that has grown 30% plus organic growth in the quarter. Our reproductive health business continues to do very well in a tough birth rate market environment and even our IDx business outside of China grew very well.

I think the fact is that the DRG came up, and we saw this unexpected debundling policy that was implemented in the middle of the quarter. So our focus really is that how do we address this with KOLs and with hospitals to, A, figure out how to reverse these changes because it is going to have an impact on patient care. There are many things that have gone and taken place in China around VBP, Sunshine Act. But really the one that has impacted us is DRG. And our focus really is to ensure that we address that because in the longer term, we are confident this is going to impact patient care.

Operator

Our next question comes from Dan Leonard with UBS.

Daniel Louis Leonard

UBS Investment Bank, Research Division

I want to make sure I understood the comment on the difficult multiyear comps in immunodiagnostics. Could you elaborate there?

Maxwell Krakowiak

Senior VP & CFO

Sure. I mean I think when we look at our guidance here for the second half, again, if you look at the multiyear stacks between Q3 and Q4 for our IDx business outside of China, they're basically the same at low double digits. And so that's what we mean by when we say there's a little bit of a comp dynamic. But on a multiyear basis, they're at the same level between Q3 and Q4.

Daniel Louis Leonard

UBS Investment Bank, Research Division

Okay. And a clarification on foreign currency, Max. The foreign currency movements haven't been that dramatic since late April when you last reported. So what's the -- I'd just like to better understand the driver of foreign currency on the EBIT margin percentage, if possible.

Maxwell Krakowiak

Senior VP & CFO

Yes. Well, I'd say a couple of things on that, Dan. One is that it was as of March 31 is the FX rates, we moved in, and I don't know maybe your definition of materiality, but I think it's been a quite significant weakening of the U.S. dollar from the end of March. So I think it's been pretty material. I'd say second, when you look at the operating margin drop, I mean the biggest pieces I mentioned, though, is really the volume drop of incredibly high-margin assays in our Diagnostics business for IDx China.

Operator

We now turn to Michael Ryskin with Revvity (sic) [Bank of America].

Michael Leonidovich Ryskin

BofA Securities, Research Division

Yes. Mike Ryskin with Bank of America, but close enough. On the -- I want to go back on the DRG changes that you talked about. You made a comment a couple of times that you think that this could actually lead to a change in how diagnostics is done with moving away from some of these more multiplexed panels going on digital testing. I'm just wondering sort of what makes you think that's the direction it's going to? I mean could you interpret this as just another step to reduce cost and reduce spending? So while people might -- while you might try to replace them with single plex plan, it doesn't seem like it's going to be a durable change if again, the end goal was to cut costs. So I don't know if you've seen any evidence for that or any early anecdotes. Just talk about the long-term shift there.

Prahlad R. Singh

CEO, President & Director

Sure. Mike, welcome to the team. I would just say that you're right, the debundling policy or the minimum sufficiency principle as they say, the primary driver for this is cost. And that's what we are assuming that this is going to have an impact, and we have assumed in our guidance that this impact will continue until we anniversary this. The fact of the matter is that as you think from a patient care perspective, you do need to find out what is the cause for the autoimmune disease that a patient might have. So from that perspective, they will eventually have to get a single plex test to confirm. And again, I use the needle in a haystack example to sort of illustrate as to how this plays a role. But you are right. From our perspective, we have assumed that this impact is going to continue, and we will anniversary this.

Michael Leonidovich Ryskin

BofA Securities, Research Division

Okay. All right. Fair enough. And then on the Life Sciences side of things, the declines in instruments are not super surprising, given what we know about the end market. Just curious if you could give us anything on the order trends book-to-bill. I know you don't want to give specifics, but just any forward demand trends that you saw during the quarter to give you any sense for how -- when the instruments might return to growth, if they'll return to growth by the end of the year, or if we should really look for that in 2026?

Maxwell Krakowiak

Senior VP & CFO

Yes. Mike, look, I think as you look at our platform assumptions for the remainder of the year, we're really not anticipating a different market environment than what we've experienced so far in the first half of the year, which will be continuing to be a cautious environment, but one that is relatively stably cautious. And so that's kind of our assumption here for the second half. I think we'll have to continue to see how things play out here over the back half of the year and what that ultimately means for 2026. But at least our assumption for the remainder of this year is that it's going to remain relatively cautious here.

Operator

We now turn to Patrick Donnelly with Citi.

Patrick Bernard Donnelly

Citigroup Inc., Research Division

Maybe just a follow-up on the reagent side. Can you just talk about not only what you saw in the quarter, but expectations going forward? I know you serve some different end markets there. So just curious what you're seeing in each vertical and again, expectations for the remainder of the year on the reagent side and what you're seeing there?

Maxwell Krakowiak*Senior VP & CFO*

Yes. So from a reagent perspective, I think as Prahlad mentioned, it's been 5 straight quarters now of sequential growth, which is obviously a positive sign. I think as you look at what our expectation is for the back half of the year, Patrick, it's very similar to what we saw from the first half, again, similar to what I just mentioned on platforms. We're not really assuming a change in the underlying market environment and things continue to be stable and modestly improving, though we're definitely not back at what we consider normal levels.

I think when you look at the different splits between pharma/biotech and academic and government on the reagent side, pharma/biotech is doing slightly better from a reagent standpoint. Obviously, the academic and government headwinds, we're not immune to. But although we are selling reagents, we are, I would say, a little bit more insulated there from an academic and government standpoint. But things are, I would say, relatively stable, we've been there as we've kind of progressed through the second quarter.

Patrick Bernard Donnelly*Citigroup Inc., Research Division*

Okay. That's helpful. And then moving on the cap deployment side, you guys talked a little bit about a little more aggressive on the share repo. Can you just talk about the appetite on the deal side? It's been topical. We've seen a few larger deals going to come through in the group. Can you just talk about your appetite, what you've seen and what the funnel looks like at the moment?

Prahlad R. Singh*CEO, President & Director*

Yes, Patrick. We continue to actively evaluate redeploying our cash into potential M&A targets, as I've talked about earlier. But really, where our focus is on making strong strategic additions to the company. And this is sort of where our disciplined multi-criteria process plays a role. We've not really identified targets yet that are compelling enough from both a financial profile and expected return perspective to move forward with.

I mean given the strong and differentiated financial profile that we have now put in place for Revvity and our strong internal innovation pipeline, we'll continue to remain active and aggressive in looking at opportunities and targets of all shapes and sizes, but we'll also remain disciplined as we believe that what we've built at Revvity is now something that is truly special on its own. So we continue to look. We have an active pipeline. But really, we haven't found anything that has been compelling enough for us to make the jump.

Operator

Our next question comes from Rachel Vathsdal with JPMorgan.

Rachel Marie Vathsdal Olson*JPMorgan Chase & Co, Research Division*

I wanted to kind of pivot here and talk a little bit about your tariff assumptions. You mentioned that your guide was really assuming the tariff as of Friday, but you also acknowledged the tariff deal that was announced over the weekend to EU, given EU tariffs are now going to be 15% instead of 10%. So can you help unpack for us a little bit what is currently assumed in terms of dollar amounts for what's going to be pressuring the EU? And then talk about some of the incremental offsets that we can see there, given just that's an important geography for you guys.

Maxwell Krakowiak*Senior VP & CFO*

Yes. Rachel, thanks for the question. Look, I think as you look at the tariff situation, obviously, it's rapidly evolving as we saw the news come across the desk yesterday. I'd say, look, and there's still some details that have to get finalized here in terms of the exact scope of what is agreed upon in this framework. But if

we take the assumption that it's a 15% tariff here between the Europe and U.S. that's probably the gross impact for us in the second half of \$0.03 to \$0.05. However, I would say we're already actively putting in place offsetting mitigation actions to sort of abate these potential headwinds. And then longer term, as we're looking at our overall cost structure, this is going to be a major factor as we sort of look at as we evaluate our global manufacturing footprint and what sort of permanent changes we may need to make there.

Rachel Marie Vatnsdal Olson

JPMorgan Chase & Co, Research Division

Great. That's helpful. And then just on NIH. You talked about some of the pressure that you were seeing in academic and government, and that's kind of playing out in line with your expectations here. But can you just walk us through what's the house view for Revvity and on how you see the budgets playing out? Do you think we'll have a continuing resolution here? What are your expectations for NIH in regards to funding next year?

Prahlad R. Singh

CEO, President & Director

Yes. I think anyone's response would be as good as mine in trying to speculate what 2026 NIH budget would look like, Rachel. From our expectation right now for the rest of the year, we are assuming that it will continue to -- the academic and government performance will continue to stay weak and stay stabilized at the lower level for the rest of this year. And we just have to see how things pan out in the second half to be able to comment on 2026.

Operator

We now turn to Luke Sergott with Barclays.

Luke England Sergott

Barclays Bank PLC, Research Division

I just wanted to touch a little bit on the Life Sciences margin side. You had a little bit of -- on the GM, you talked about like the weakness there. But you have really strong Software, reagents were up, like we said, instruments, we talked a little bit about that. Just kind of the puts and takes of what's going on. I assume that there's probably a little bit of volume there. But like I said, you had strong reagents and software and kind of how this is going to trend throughout the year.

Maxwell Krakowiak

Senior VP & CFO

Yes, I think as you look at our Life Sciences operating margin, I'd say a couple of dynamics are at play. One, you've got the tariff headwinds, obviously, that we've talked about. There's more of an impact in DX, but LS isn't completely immune. I'd say the second thing is we did talk a little bit of the FX pressure that's impacting both of our businesses. And then the third one I would say is there was a little bit of specific product mix within the reagents business here in the second quarter that led to a little bit of some margin pressure for that business. But I think as we look over the long term, and there's nothing really that's sort of structurally changed how we view the operating margin performance or entitlement of our Life Sciences business.

Luke England Sergott

Barclays Bank PLC, Research Division

Okay. And then on the additional cost actions you guys are taking out, is this essentially you guys looking at it and saying, all right, well, this is a tougher environment. We can kind of pull forward some of those cost actions we were looking to implement on the out years? Or is this going to be incremental to those?

Maxwell Krakowiak

Senior VP & CFO

I think it's a combination of things. One, I think there is a little bit of what you talked about on maybe pulling in some additional structural actions that were already planned in future years. I think, two, as I've mentioned, we are reevaluating our global manufacturing footprint, which just given that we have some regulated sites, can take a little bit of time. But one now with some of these tariff rates, it probably makes a little bit more financial sense to pull the trigger on. And then I'd say, third, we are looking at some specific sales and marketing channels, given the specific drops in IDx China and making some very, I would say, targeted actions in that location.

Operator

Our final question today comes from Dan Arias with Stifel.

Daniel Anthony Arias

Stifel, Nicolaus & Company, Incorporated, Research Division

Prahlad, you mentioned VBP in your China comments. Can you just sort of explicitly update us on the confidence that you have in that business not getting caught up there? I mean the message, I think, has been pretty consistently that, that shouldn't be an issue just given the nature of the business and some of the competitive dynamics. But obviously, there are surprises afoot here. So just checking to make sure that, that's still the view that you have.

Prahlad R. Singh

CEO, President & Director

Yes, Dan. What we have seen, again, as I said, has been more around the DRG policy rather than on VBP. I mean VBP, we haven't seen any impact from it going forward. But at the end of the day, one way or the other, the whole focus of the government clearly is how do you debundle, whether you use the Sunshine Act or VBP or DRG to bring costs down. The question really comes from our perspective, the guidance that we have assumed is that impact will continue until we anniversary this.

But longer -- mid- to longer term, our focus is around patient care because from an autoimmune perspective, as I said, at the end of the day, you have to find what the specific autoimmune disease is. And without multiplex and going to single-plex, this is going to, in the mid- to longer term, add to the cost or rather at the most, be neutral to the cost structure that they are trying to put in place right now and not really significantly bring it down.

Daniel Anthony Arias

Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. All right. That's helpful. And then maybe on Genomics England and the expanded program there. Can you just help us with what the ramp-up periods look like for volumes? And maybe what kind of contributions you assumed for the back half? I think we had circa like \$10 million or so. So just checking to make sure that, Max, that's an okay number.

Maxwell Krakowiak

Senior VP & CFO

Yes. Dan, I think that's an okay number. And again, as I mentioned, we've got pretty good visibility on what the ramp is. We've already a month into the program. It's going extremely well. But I think the split that you mentioned are appropriate in terms of \$10 million overall for the back half. Most of that will be in the fourth quarter, though.

Operator

This concludes our Q&A. I'll now hand back to Steve Willoughby for any final remarks.

Stephen Barr Willoughby

Senior VP of Investor Relations & Head of ESG

Thank you, Elliott. We look forward to speaking with everyone over the remainder of today and over the coming weeks. Have a good day.

Operator

Ladies and gentlemen, today's call has now concluded. We'd like to thank you for your participation. You may now disconnect your lines.

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